

CAPITAL MARKETS DEVELOPMENT PROJECT IN THE REPUBLIC OF ARMENIA

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

**QUARTERLY REPORT FOR THE PERIOD
ENDING MARCH 2000**

Contractor/Submitting Party: PricewaterhouseCoopers LLP

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Capital Markets Development Project in the Republic of Armenia

42/1 Arami Street, Yerevan, Republic of Armenia
Հայաստանի Հանրապետություն, ք.Երևան, Արամի 42/1

Phones: (3742) 589286, 589201, 589160
585232, 566526

Fax: (3742) 151275

Gov: (3742) 5708

TO: **Ann Richards COTR, USAID/Washington**
 Michael Greene, USAID/Yervan
 John Irons, USAID/Yerevan

CC: **Tessie San Martin, PricewaterhouseCoopers**

DATE: **April 14, 2000**

Quarterly Report for the Period Ending March 2000

In addition to those set forth below by Task, activities during the quarter included various meetings and discussions with, among others, USAID Representatives Walter Coles, Richard Johnson and John Carihfield, in connection with a review and comprehensive assessment being made by them of the economic restructuring program being completed by USAID in the Republic of Armenia (ROA); USAID Representative Ann Richards, CTO for the Project, concerning the status of Project activities through the time of her visit; Ms. Lauren Moser, Managing Director of Shorebank Advisory Services, concerning the possible establishment by Shorebank of a small/medium enterprise equity fund in the ROA; representatives of the Securities Markets Members Association (SMMA), concerning, among other things, suggested changes to the draft Law on Securities Market Regulation (draft Law); various of the ROA's licensed broker and dealer firms, concerning implementation of the SRS Program (see below Task A); Mr. Karen Adonts, Deputy Minister of Coordination of Production Infrastructure System, concerning status of the draft Law; Mr. Armen Yeghiazarian, Chief Economic advisor to the Prime Minister of the Republic of Armenia (ROA) and the Chairman of the Bankers Association, concerning, among other things, the status of activities to rewrite or amend the Joint Stock Company (JSC) Law of the Republic of Armenia; Mr. Martin Slough of the World Bank (WB), concerning capital market development in the ROA and the status of the draft Law; Messrs. Ben Steinberg and Fletcher Hodges of FINCA, concerning FINCA's activities in the ROA; Mr. Michael Lubrano, Senior Securities Market Specialist for the International Finance Corporation (IFC) and Dr. Gregory Maassen, Corporate Governance Expert for the IFC Corporate Governance Project in the Republic of Armenia (ROA), and others, including representatives of USAID/Yerevan concerning the Law on Joint Stock Companies of the ROA; Mr. Timothy Jemal, President of Silk Road Investments, a venture capital firm focused on investments in the ROA; Mr. Jeffrey Horowitz, Economics Officer for the US Embassy/Yerevan, concerning the status of the draft Law; and, as well, various meetings or discussions involving USAID Representatives Michael Greene and Fred Clapps, and/or representatives of various of the other USAID-sponsored economic and legal reform projects including Messrs. Paul Dodds and David Spira (Privatization Support Project) and Mr. Daniel Bosco (Commercial Law/Rule of Law Project) in the ROA.

As reported in our Monthly Report for September 1999, for reason of the inability to date to obtain adoption of the draft Law on Securities Markets (draft Law), we were directed by USAID Representative Richards that, for the timeframe from September 1999 to January 2000, we were to focus our activities on a discrete list of task activities, with our primary objective being to obtain adoption at the earliest opportunity of the draft Law. For a list of the activities, see **Attachment 1**.

As reported in our Monthly Report for January 2000, during January 2000, a senior-level USAID Assessment Team comprised of USAID representatives Walter Coles, Richard Johnson and John Crihfield conducted a review and comprehensive assessment of the economic restructuring programs (including this Project) being implemented by USAID in the ROA. As a result of recommendations determined and made by the USAID Assessment Team, at the end of January 2000, a decision was taken to extend the Project on a “no-cost” basis for the period from the end of February 2000 to the end of April 2000. During the period of the no-cost extension, we were directed to focus on: i) adoption of the (new) draft Law; ii) completion of SRS Pilot Program activities (see Task A below); iii) assistance to the Securities Market Inspectorate (SMI) of the ROA with further development of the regulatory framework pertaining to stock exchanges and self-regulatory organizations (SROs); and iv) with regard to SRO development, assistance to the needs of the SMMA as the nascent broker and dealer SRO in the ROA.

During March 2000, USAID Representative Ann Richards visited the Project and at that time, as a result of a series of meetings and discussions which then took place between her and the local USAID Mission, advised that a decision had been taken to extend the Project on a “no-cost” basis for the remainder of the year. USAID Representative Richards also advised that for the remainder of the year activities would “more than likely be focused on: 1) further development of the SMMA, 2) finishing consolidation, 3) work with the SMI if a securities law gets final passage, and 4) institutionalization of the CDA” (see **Attachment 2**). At that time, USAID Representative Richards further advised that the technical assistance (T/A) and “other direct costs” envisaged by us to support these activities should fit within certain funding limitations which had been established by the local USAID Mission. USAID Representative Richards then directed that for the period going forward from May 1, 2000 to December 31, 2000 we were to prepare and promptly submit to her a pro forma budget and detailed work plan. Accordingly, we are now in the process of finalizing same with USAID Representative Richards.

To assist in the above and in various of the activities set forth below, during the quarter, in addition to our two long-term advisors, the technical assistance (T/A) services of various Expatriate and Third Country National capital markets specialists and attorney advisors were called upon.

1. Task A. Assistance to the SMI (“Securities Markets Inspectorate”) formerly known as the Securities and Exchange Inspectorate or “SEI”

Primary activities to provide assistance to the SMI focused on the following:

- i) Obtaining passage of the draft Law. As previously reported, activities focused during December 1999 on continuing efforts to obtain approval by the National Assembly (NA) Committee on Financial-Credit, Budgetary and Economic Issues (NA Committee) of the draft Law which was approved “in principle” by the GOA on October 24, 1999

and sent to the NA Committee on November 8, 1999. The NA Committee approved the draft Law on December 23, 1999 with an indication that it would be placed on the agenda of the NA at beginning of the next session of the NA which was scheduled to commence on February 7, 2000.

During January 2000, efforts remained focused to support the efforts of Mr. Edward Mouradian, Head of the SMI, and Mr. Manvel Badeyan, Deputy Chairman of the NA Committee and chairman of the working group of the NA Committee on adoption of the draft Law.

During February 2000, the fullest of legal and logistical support continued to be provided to Mr. Mouradian, including assistance in finalizing the Armenian text of the draft Law and the rendering 135 copies of same to Mr. Mouradian for distribution to the members of the NA. The “first” reading of the draft Law was commenced on February 9, 2000. At that time, acting on behalf of the GOA, Mr. Mouradian presented the draft Law to the NA with eight members indicating their desire to address questions on the draft Law to Mr. Mouradian. The regular three-day working session of the NA ended on that date with questions and answers, and deliberations on the draft Law being deferred to the next regular three-day working session of NA which was scheduled to commence on February 21, 2000 (see **Attachment 3**).

On February 21, 2000, the NA reconvened as scheduled and discussions returned to deliberations on the draft Law. At that time, as reported in the Monthly Report for February 2000, during a “confused” vote on approval of the draft Law on “first” reading which took place on February 21, 2000, the draft Law was not approved on first reading; and, as at the end of February 2000, the status of the draft law was such that with “cosmetic” changes it was anticipated that the GOA would promptly send the draft Law back to the NA with a note from the Prime Minister (PM) requesting that it be re-approved by the NA Committee and placed for first reading on the agenda of the next earliest regular three-day working session of the NA.

On March 3, 2000, we were advised that late on the evening of March 2, 2000 the draft Law had been sent back to the NA Committee under the signature of the PM and that it would be put on the agenda of the regular three-day working session of the NA scheduled to commence on March 6, 2000 (see **Attachment 4**). On March 7, 2000, the draft Law was reached for discussion for approval on first reading; but, due to the lack of a quorum being present at that in the NA, voting on the draft Law was postponed to March 8, 2000. On March 8, 2000, due to the inability of the GOA to determine the presence on the floor of the NA of a sufficient number of members of the NA that were believed by the GOA to favor approval of the draft Law on first reading, a decision was taken by Mr. Edward Mouradian, the Head of the SMI, to postpone voting on approval of the draft Law on first reading to the next regular three-day working session of the NA scheduled to commence on March 20, 2000. At that time, because of the focus of attention and political opposition by several outspoken members of the NA to the fact that Chapter XII of the draft Law envisaged (as is required by the Constitution of the ROA) that the President of the ROA would appoint the members (Commissioners) of the Securities Commission, Mr. Mouradian made a strategic decision to remove Chapter XII from the draft Law when resubmitting it for approval on first reading on March 20, 2000 (see **Attachment 5**).

On March 20, 2000, the draft Law (absent Chapter XII) was submitted to a vote for approval on first reading by the Chairman of the NA Committee, Mr. Vardan Khachatryan, and was duly approved (see **Attachment 6**). At that time, however, neither Mr. Mouradian nor any other representative of the GOA was present as in the interim, under the pressure of criticism by certain members of the NA for the forceful manner in which he had attempted to obtain approval of the draft Law on first reading during the previous regular three-day working session of the NA, Mr. Mouradian had been forced to resign as Head of the SMI (see **Attachment 7**).

As at the end of the quarter, the status of the draft Law was such that it was anticipated that a "political" solution would be found for dealing with Chapter XII and that, as required by the Regulations on the NA, the draft Law would be reached for a "second" reading within one month (the regular three-day working session of the NA to commence on April 17, 2000) from the date of its approval on first reading. By the end of the quarter, Mr. Tigran Karapetyan had been re-appointed as Head of the SMI;

- ii) Assisting the institutional development of the SMI through activities including staff training, drafting assistance and meetings with the Head of the SMI (and various SMI staff) at which relevant securities market legal, regulatory and developmental issues were discussed. Importantly, during the quarter, substantive efforts continued to provide support and assistance to the Head of the SMI and the SMI staff concerning relevant issues and principles contained within the draft Law. In this context a substantive review was made and comments provided to the SMI concerning amendments proposed by the SMI on other laws considered by the SMI to be affected by passage of the draft Law (see **Attachment 8**). Importantly, as well, substantive efforts were undertaken at the end of the quarter to identify an appropriate model for the SMI to consider as the basis for a "recommended" approach for the ROA to follow in establishing a politically acceptable procedure for the selection of the Commissioners to the "independent" Securities Commission which is to be established following adoption of the draft Law. Other activities during the quarter included assistance in the institutional development of the SMI in the form of continued discussions with Mr. Artsvi Minasyan, Deputy Head of the SMI, and Mr. Ashot Azizyan, Deputy Head of the SMI Inspection Department, concerning the SMI's investigation of the activities of "Securities Register" a licensed "independent register" (IR). As reported in the Monthly Report for January 2000, the cause for concern which lead to an investigation of the activities of the IR arose in the course of implementation of the SRS Pilot Program (see herein below). It was in this context that it was learned that the IR had received compensation from various companies for which the IR had wrongfully certified to the SMI (and the CDA) that it was maintaining the shareholder registers of these companies in accordance with the applicable laws and regulations of the Republic of Armenia (ROA) when, in fact, it was not doing so and had not even performed the basic work necessary to establish a shareholder register for such companies. As a result of the investigation, a decision was taken by the SMI to revoke the license of the IR. For more details concerning this and other efforts involving institutional support to the SMI, see **Attachments 9 and 10**;
- iii) Surveying all laws of the ROA as apply to securities market activities, including efforts to ensure "harmonization" of the draft Law with same. In this regard, efforts also continued to obtain adoption of the proposed amendments which we have recommended to the Joint Stock Company (JSC) Law, the purpose of which would be

to ensure the efficient functioning of future registry and depository activities. During August 1999, the GOA reaffirmed its approval and support for the proposed amendments by returning them for action to the NA. The next step in the process, as again discussed and reconfirmed in December 1999 with the Chairman of the NA Committee and with Mr. Vladimir Nazaryan, Chief Legal Advisor to the NA, will be to have the proposed amendments to the JSC Law joined for consideration with the draft Law. In this connection, a meeting was held during March 2000 with representatives of the IFC, USAID and others to consider and coordinate efforts to draft a new JSC Law for the ROA. The outcome of the meeting was uneventful, however, as an appropriate GOA or NA counterpart to “champion” the drafting of a new JSC Law could not be identified. During the month, we also received and commented on an IFC “review” of the present JSC Law; and

- iv) Building the functional capacity of the CMMU and expanding and improving the CMMU’s database. As previously reported, during July 1999, the CMMU database was installed in the SMI and SMI specialists were trained on how to use and maintain the database. To build on these initiatives, further discussions took place with representatives of the SMI during November and December 1999 to define further cooperative efforts on expansion and further development of the CMMU database and during December 1999 training on use of the CMMU database was again provided to the staff of the SMI. During the quarter, the activities of the CMMU were focused, among other matters, on adding additional new features to the CMMU database, completing the first draft of the Policies and Procedures Manual for the SMI “Division of Inspection over Issuers and Protection of Investors Rights”, and analyzing activities on Armenia’s four stock exchanges during 1999. Additional activities during the quarter which were performed in March 2000 included a number of detailed memoranda concerning, among other matters, the trading volume on Armenia’s four stock exchanges (see **Attachment 11**), the listing policies of the four stock exchanges (see **Attachment 12**) and the membership/ownership structure of the four stock exchanges (see **Attachment 13**). The cited memoranda and other related activities of the CMMU during March 2000 were focused to support the efforts of the Expatriate Broker-Dealer Association/SRO specialist (BDA/SRO Specialist) who arrived at the middle of March 2000 to provide T/A to the SMMA (see below Task E). For a detailed memorandum on the activities of the CMMU for February and March 2000, see **Attachment 14**.

In addition to the foregoing, other activities included continuing efforts by our Expatriate Investment Banking and Training Specialists to design and develop programs to provide T/A to the Ministry of Privatization (MOP) and/or the SMI.

The first such effort focused on T/A to the MOP and SMI to facilitate the sale of state shares remaining in privatized enterprises with less than 50% state ownership remaining – the “SRS Pilot Program” – a primary purpose of which is to develop and enhance the capacity and skills of brokers and dealers to act as financial advisors and underwriters. For this purpose, two major training components were developed and delivered in April 1999 and more have been developed for delivery during implementation of the SRS Pilot Program.

During November 1999, despite numerous delays and the fact that the second of two required GOA “SRS” Decrees was not finalized until November 2, 1999, we were granted approval by USAID (on November 4, 1999 – see Attachment 7 to the Monthly Report for November

1999) to proceed with the SRS Pilot Program. The SRS Program moved into “high” gear and by the end of the month six brokerage firms had been selected to participate in the SRS Pilot Program and all 15 SRS Companies had been allocated between them (see Attachment 10 to the Monthly Report for November 1999). With this accomplished, at the end of November 1999, our expatriate Investment Banking and Brokerage Specialist team arrived in Yerevan and activities were set to move into full swing during December 1999.

During December 1999, these activities included an “Introduction Workshop” for participating brokers and, importantly, a series of group and one-on-one meetings with the participating brokerage firms involving members of expatriate specialist team and our local professional specialists (with each of our local professional specialists being assigned a participating brokerage firm for which the specialist was responsible to monitor the quality and timelines of all documents to be prepared by the brokerage firm). By month-end, five prospectuses had been prepared and approved by the MOP and were in the process of being submitted for approval by the SMI, and prospectuses of the remaining ten companies were anticipated to be submitted for approval by the MOP and sent for approval by the SMI by the week of January 10, 2000. In addition, as at the end of December 1999, seven companies were in compliance with the requirement to use (had agreed to have their registers maintained by) the services of the Central Depository of Armenia.

During January 2000, activities were intensified for the purpose of moving the SRS Companies to market (sale) at the earliest opportunity. As a result of these activities, at the beginning of February 2000, four SRS Companies were set for sale on February 18, 2000, three were set for sale on February 23, 2000 and four were set for sale on March 2, 2000. During February 2000, activities were focused and put into motion to assist the participating brokers in effectively marketing the shares which were being offered. Among other activities, on February 11, 2000, a seminar on “How to Sell Securities” was provided to the participating brokers. Of the first four SRS Companies offered for sale on February 18, 2000, two companies received a total of seven bids and were sold with the other two companies failing to receive any bids. Of the second group of three companies offered for sale on February 23, 2000, one company received two bids and was sold with the other two companies failing to receive any bids. As of the end of February 2000, a third group of four SRS companies remained for sale on March 2, 2000 and a fourth group of two SRS companies remained for sale on March 17, 2000. Of the third group of four SRS Companies offered for sale on March 2, 2000, three companies received a total of five bids and were sold with the fourth company failing to receive any bids. Of the fourth group of two SRS companies offered for sale on March 17, 2000, both companies failed to receive any bids.

To “wrap-up” the SRS Pilot Program in such a manner as to capture and document to the fullest the individual experiences, both good and bad, of the participating brokers and to afford an opportunity for the brokers to share their experiences with representatives of the MOP and SMI, a “Pilot SRS Lessons Learned Workshop” was conducted on March 22, 2000. For purposes of the workshop, the participating brokers were surveyed in advance and relevant information was gathered from them and analyzed. For a copy of the survey and analysis, see **Attachment 15**. As a result of the analysis, the materials for the workshop were designed from the perspective of the SRS Pilot Program’s relevant participants – the MOP and SMI, the companies, and the brokerage community. This was done so as to focus on both the outcome of SRS Pilot Program and the prospects for similar activities in the future. For a copy of the materials, see **Attachment 16**. It is important to note that on behalf of the MOP and SMI, Deputy MOP Markossyan and Deputy SMI Head Karapetyan actively

participated in the workshop and in the substantive head-to-head discussions which took place with the participating brokers. Importantly, too, during these discussions, Deputy MOP Markossyan re-affirmed the continued willingness of the MOP to work with the brokers in the future SRS and similar privatization initiatives. Deputy MOP Markossyan also indicated his willingness to receive from the brokers a list of the companies which the brokers felt they could assist to be sold and privatized.

The second such effort focused on T/A to the SMI to enhance the professional skills and qualifications of brokers and dealers – the “Broker-Dealer Qualification Training and Testing Program”. This will be accomplished by expanding the SMI’s capacity to provide a more thorough qualification training and testing program for the licensing of brokers and dealers.

By the end of August 1999, a total of 855 suggested questions for Broker-Dealer qualification testing had been developed, edited and consolidated into appropriate categories for administering the broker and dealer testing process (see Attachments 22 and 23 to the Monthly Report for August 1999). And, by the middle of October 1999, the course materials for the nine training modules envisaged to be required to properly train examnants for the new qualification test had been completed and steps had been taken to mobilize our team of expatriate Training Specialists to deliver the Broker-Dealer Qualification and Testing Training of Trainers (T-O-T) Program during the week of October 25, 1999. In advance of the T-O-T Program, on October 22, 1999, our Training Specialists also provided a one day seminar on “Selling Securities in the Republic of Armenia”, a seminar which had been developed and targeted to support the SRS Pilot Program. Though commenced on schedule, the T-O-T Program was, however, forced to be halted after three days of training due to the assassination of Armenia’s Prime Minister and others on October 27, 1999. During November 1999, activities were, however, immediately refocused to conclude the T-O-T Training Program which was successfully concluded in training activities which were conducted between November 22 and 24, 1999. For details, see Attachments 11, 12 and 13 to the Monthly Report for November 1999.

In parallel with T-O-T activities, our IT staff were working to conclude the design and development of the software (database management system) necessary for the SMI to administer the qualification testing process. By the end of November 1999, development of the software was basically completed and plans were being made to load the database of test questions in order that the new qualification testing system could be demonstrated and, importantly, rigorously tested and made ready for use by the SMI (see Attachment 14 to the Monthly Report for November 1999).

During December 1999, in furtherance of these activities, efforts continued to finalize the study manual which we had undertaken to develop with the SMI to assist examnants to study when preparing for the new qualification test and the software which we had designed to accommodate the use of a computerized testing regime. By the end of December 1999, both of these efforts were substantially completed (see Attachment 15 to the Monthly Report for December 1999).

At the beginning of February 2000, as a result of the intensive efforts which had been put forth during the previous several months, the examnant study manual was completed and delivered to USAID Representative Richards. During February and March 2000, efforts were redoubled with the SMI to review and finalize the examination questions, to complete development of the testing software and to populate the software database.

2. Task B. Development of Trading System

As agreed earlier in the year with USAID Representative Richards, rather than focusing on efforts to promote the National Market System (NMS), since February 1999 our efforts have been primarily focused on how to enhance the functional and operational capacity of the National Centralized Registry (NCR) of the Central Depository of Armenia (CDA) – for more details see below Tasks C and D. During February 1999, USAID Representative Richards authorized the purchase of certain “Phase I” purchases to enhance the functional capacity of the NCR and, in addition, other actions intended to allow the “mass” consolidation of share registers to begin as from May 1, 1999 (see Attachment 9 to the Monthly Report for February 1999 and below Task D). However, as previously reported, due to the need to temporarily relocate the NCR/CDA to another location (pending provision by the GOA of new permanent quarters for the NCR/CDA), the installation of certain of the Phase I purchases were delayed until June 1999 by which time a temporary location had been determined and made ready for use by the CDA. For more details in these and other activities designed to establish the functional capacity of the NCR/CDA to maintain shareholder registers, see below Tasks C and D.

During the month of September 1999, in further reviewing with USAID Representative Richards various of the activities which were proposed by us to realize the NMS, approval was given, as a first step toward realization of the NMS, for the development of an “Armenian Stock Exchange” (ASE) Website (see Attachment 22 to the Monthly Report for September 1999). During October 1999, activities continued to realize the timely development of the website, including the hiring of a local “web-master” and actions which were intended to ensure linkage between the Armenian Stock Exchange Website and the Armenian Development Agency’s Website (the “Gateway to Armenia” Website which is being developed with assistance from the WB), and the Ministry of Privatization’s Website (which is being developed with the assistance from USAID).

During December 1999, our preliminary development efforts were realized, when, by the end of the month, the ASE website was ready for demonstration using our office LAN system and Internet site.

During the past several months to the present, much of our IT attention has been focused on providing on-going IT support to the SMI. This has been done to more fully institutionalize the SMI’s use of the CMMU and ISIN databases, and to facilitate the SMI’s use of the broker-dealer qualification testing software which we now consider to be a reasonably fully developed product. Additional IT efforts have included those to realize population of the ASE Website (see herein above) database and, most importantly, to implement for full use by the CDA the share registry software which has been provided to the CDA under the Project (see below Task D).

In connection with this activity and to further explore the possibility for consolidation or merger of Armenia’s four stock exchanges, it should also be noted that in September 1999, we undertook an analysis of the Yerevan Stock Exchange’s Automated Trading System (SEDGAP). Regrettably, the level of cooperation and information received from the Yerevan Stock Exchange failed to permit a meaningful analysis of SEDGAP’s capabilities. However, based upon the extent of documentation provided and a visual demonstration of the system’s functions, we are able to indicate that while it would appear the SEDGAP

system has been designed using contemporary technology, it has not been put to rigorous testing by brokers and is not at this time a commercial grade software.

3. Task C. Development of Clearance, Settlement Process

As previously reported, by the end of October 1998, our Expatriate central depository, clearance and settlement system design and development specialist (CSD Specialist) had completed the initial phase of his activities and delivered a detailed draft report on the functional specifications for an “Armenian Central Securities Depository” (CSD). More recent efforts have, among others, focused on the development of a detailed self-sustainability plan for the registry activities of the CDA. In efforts designed to encourage and facilitate a loan from the WB to the GOA to support development of the NCR/CDA, a copy of self-sustainability plan was, with consent of the GOA, provided to WB in June 1999. Other efforts in this regard have included assistance to the GOA to develop a detailed “Financing Proposal” for the CDA for consideration by WB, and support for the efforts of Mr. Tigran Davtyan, General Director of the CDA, to rally GOA support for approval of the WB Loan Proposal. In addition to providing assistance to Mr. Davtyan to draft the WB Financing Proposal, at the end August 1999, we also met with WB Representatives in Yerevan both to facilitate WB approval of the Financing Proposal and to obtain WB support for prompt passage of the draft Law and adoption of necessary amendments to the JSC Law. The meeting with the WB representatives resulted in certain provisions being added to the WB Strategy Mission’s “Aide Memoire” which supported both of these matters. Portions of these provisions also subsequently found themselves in the “Draft Terms of Reference” for a WB “Financial Sector Vulnerability Assessment” of Armenia. As a result, a considerable amount of time was spent during October 1999 reviewing the state of Armenia’s capital markets institutions with a WB Financial Sector Staff Analyst. At that time, copies of the CMMU’s reports were again shared with representatives of WB and found by them to be of considerable value.

While early in September 1999, WB approval was granted for the Financing Proposal to support development of the CDA, obtaining GOA approval of the Financing Proposal remained problematic. We are pleased to report that by late October 1999, the GOA had approved and the President had signed a decree authorizing the WB loan to support development of the CDA. As of the date of this report, we must advise, however, that the GOA has not to our knowledge made a draw-down on the WB loan.

As previously reported, during November and December 1999, and January 2000, activities continued to support “commercialization” of the CDA. These included both consolidation (see below Task D) and other efforts designed to focus the CDA on the need to promptly bring consolidated companies “under contract” to have their registers maintained by the CDA (see Attachment 17 to the Monthly Report for November 1999). To support these efforts, during December 1999 we developed a “Marketing Action Plan” to assist in commercialization of the CDA and revised the self-sustainability plan which we have previously developed for the CDA (see Attachment 17 to the Monthly Report for December 1999). During January 2000, these activities included encouraging the SMI to send letters to companies noticing them of the requirement to use the services of the CDA and efforts to assess the legal impact and potential economic benefit to the CDA of GOA Decree #21, which was enacted on January 21, 2000 (see Attachments 13 and 14 for the Monthly Report for January 2000).

As at the present time, based on the best information available to us, we now believe that as a result of GOA Decree #21 there could be as many as 105 state closed JSCs that will be reorganized into open JSCs. The suspected universe of shareholders of these companies is approximately 31,820. Accordingly, the effect of converting these companies to open JSCs could increase the universe of shareholders in the ROA by almost 20% (to approximately 187,000 shareholders) and potential revenues to the CDA by approximately the same percentage (see **Attachment 17**).

During the quarter, our activities as mentioned herein and others were intensified to support commercialization of the CDA and to assist the CDA to receive proceeds under the GOA approved World Bank loan to the GOA to support development of the CDA (see **Attachments 18, 19 and 20**). As at the end of the quarter, we were advised by the CDA that starting from April 6, 2000, the CDA would (subject to restrictions that relate to certain types of operating expenses) begin to receive financial support under the GOA/WB loan (see **Attachment 21**).

4. Task D. Development of Independent Registry(s)

To implement the activities envisaged in this task, beginning in late August 1998, our Expatriate share registry design and development specialist (SR Specialist) together with our Third Country National share registry development and consolidation specialists (SRC Specialists) commenced efforts to define the parameters for shareholder registry activities in the ROA. When fully developed, the parameters will include both general (required minimum) functional and specific requirements (to meet proposed changes to the Armenian laws and regulations on maintenance of a share registry). To that end, during November 1998, our SRC Specialists reached conclusions concerning the functional requirements of the a shareholder registry system. As discussed in greater detail below, the functional requirements which we identified formed the basis for determination and recommendation of shareholder registry software for use by the NCR/CDA. The specific requirements for the NCR/CDA system will be completed as the proposed changes are adopted to the laws and regulations which govern share registry activities. In this regard, proposed amendments to the JSC Law have also been recommended to and approved by the GOA, and efforts continue to obtain adoption of same by the NA [see above Task A iii)].

As reported above, during February 1999, such sufficient progress had been made on reaching a basis of agreement between USAID and the GOA on the conditions for USAID support to the NCR/CDA that authorization was extended to make certain Phase I purchases to enhance the functional capacity of the NCR (see above Task B). At that time, efforts were also commenced to realize “pilot” and “mass” consolidation activities in accordance with a timetable and schedule which were agreed with USAID Representative Richards. In early March 1999, seven consolidation teams of two specialists each were hired and trained, and pilot consolidation activities were launched on March 22, 1999. The pilot consolidation activities were concluded by April 21, 1999 and, immediately thereafter, training for mass consolidation was commenced with mass consolidation beginning on May 1, 1999.

As previously reported, given that the estimated aggregate number of shareholders for all privatized open JSCs with 50 or more shareholders (which is currently estimated at approximately 134,508 and, for all privatized open JSCs with 25 and more shareholders and is estimated at approximately 141,896), it was agreed with representatives of USAID and the GOA that a single, centralized national shareholder register, designed as a privately-owned,

non-commercial structure (either as part of or electronically connected to the CSD) was, for sustainability and other reasons, the most feasible course for Armenia to pursue. As a result, in April 1999, the CDA was created by a decree of the GOA which effectively reorganized the NCR into the CDA and added to its charter the functions of depository and clearance and settlement organization (see above Task B). To this end, efforts have and continue to focus on redefining the laws and regulations of the ROA which govern share registry activities. In this regard, we have been successful in obtaining GOA and NA Committee approval of certain proposed amendments we have recommended to the JSC Law which are now pending in the NA [see above Task A iii)].

In this connection, efforts were concluded in June 1999 (see Attachment 15 to the Monthly Report for June 1999) to obtain a Consolidation Order or “Instruction” establishing the requisite authority in the SMI to enforce the requirement that all JSCs with 25 or more shareholders use the services of the NCR/CDA. The “Consolidation Instruction” was thereafter duly published by the GOA in July 1999.

As previously reported, during May 1999, as a result of various meetings and discussions involving, among others, USAID Representative Richards and our SR and SRC Specialists, a decision was taken and authorization given by USAID to increase the number of consolidation teams (from seven) to ten. The additional teams were promptly hired and trained and by July 1, 1999 began to support the mass consolidation process.

During our meetings and discussions with USAID Representative Richards in May 1999, substantive efforts were also directed toward defining the amount of time required to select, purchase, modify, install and make fully operational the share registry (software) system which is to be provided to the NCR/CDA (see Attachment 11 to our Monthly Report for May 1999). At this time, further consideration was given to the two share registry systems which had been previously determined by us as available from Russian software designers and the USAID “Rumanian” share registry system. After due consideration, authorization was extended by USAID Representative Richards to proceed with the purchase of the (Russian) AmberSoft Share Registry Software (“AmberSoft”) System (see Attachment 14 to the Monthly Report for June 1999). By early August 1999, the AmberSoft System had been installed, tested, and “accepted” by us on behalf of USAID for use by the CDA (see Attachment 25 and 26 to the Monthly Report for August 1999).

During USAID Representative Richards’ visit in September 1999, we reviewed with her an action plan framework and timeline which we had developed to ensure timely completion of all phases of the work required to provide the NCR/CDA with a fully adapted and functionally operational share registry software system by January 2000.

At that time, considerable time was also spent in reviewing our (rate of) progress to date in consolidating the share registers of privatized open joint stock companies with 50 (and 25) or more shareholders. While it was concluded that our rate of progress was satisfactory and that we were keeping to the schedule which we had developed in May 1999, mutual concerns were expressed and shared over the ability of the SMI to provide staff “in the field” to adequately support our consolidation activities outside Yerevan.

As a benchmark, as of the end of the quarter, as a result of the mass (and pilot) consolidation activities which have been conducted thus far, when taking into account the number of share ownership records (24,698) maintained by the NCR prior to the commencement of mass (and

pilot) consolidation, based upon the best available information, 88.3% of the share ownership records of all privatized companies with 25 or more shareholders have now been (or are in the process of being) consolidated (or determined to be closed) and 90.7% of the share ownership records of all privatized companies with 50 or more shareholders have now been (or are in the process of being) consolidated (or determined to be closed). As a comparative point of reference, the benchmark we had established for ourselves during May 1999 for the percentage of consolidation activities to be completed (or in process of completion) at the end of December 1999 was 75 to 80%. For more details, see **Attachment 22**.

To further support development of an appropriate regulatory framework to regulate the shareholder registry activities of the CDA, by the end of September 1999, drafting was completed and a "Shareholders' Registry Maintenance Regulation" was submitted for consideration by the SMI. To assist in the process of finalizing the regulation, the services of an expatriate Share Registry (SR) Specialist were called upon in August 1999. In addition to this task, during September 1999, the SR Specialist (whose activities were concluded that month) performed various other tasks to significantly enhance the operational and performance capabilities of the CDA.

Efforts during October 1999, to facilitate a more seamless transfer of consolidated registers to the NCR/CDA, included completion of "transfer procedures" designed to enhance and improve the process of transferring consolidated registers from our "Consolidation Unit" to the NCR/CDA (see Attachment 26 to the Monthly Report for October 1999).

Given the foregoing, we have urged and continue to urge that, as a condition to USAID support to the NCR/CDA, the MOF/SMI require all JSCs with 50 (now 25) or more shareholders to use the NCR/CDA and that enforcement of that requirement begins with companies listed and traded on Armenia's four licensed stock exchanges. Additionally, we have in the past and would continue to recommend that all companies listed and traded on a stock exchange be required to use the NCR (CDA) regardless of the number of the company's shareholders.

To assist in our on-going efforts to consolidate the shareholder registers of privatized open JSCs, we continue to track and maintain a privatization database containing the names and location of all privatized companies and the number of shareholders of each company. As at the end of the month, the privatization database, taking into account information obtained through the consolidation process, contained the names of 495 privatized companies believed to have 50 or more shareholders (see **Attachment 23**) and 717 privatized companies believed to have 25 or more shareholders (see **Attachment 24**).

5. Task E. Assistance to Trade Associations and Self Regulatory Organizations

As previously reported, to facilitate the tasks set forth herein, an Expatriate specialist in trade association development and broker and dealer training (Training Specialist) was mobilized in October 1998 and was later joined in March 1999 by another such Training Specialist. This was done to provide for a successor to our initial Training Specialist, and to prepare the way for the presentation of the formal training programs designed by us to meet various of the needs and purposes of the SRS Pilot Program. More specifically, two broker-dealer training programs entitled: "Financial Advisory and Underwriting" and "Securities Firm

Operations and Management” were developed beginning in February 1999, and completed and delivered in April 1999. Activities to facilitate development of these and other SRS training programs included, among other things, meetings and discussions involving the officers and/or members-at-large of the Securities Market Members Association (SMMA) and Financial Market Specialists Association (FMSA).

Building on these initiatives, since June 1999, efforts have been increasingly made to involve representatives of the SMMA, Giumry Stock Exchange and SMI in the development of a more adequate and complete broker and dealer qualification training and testing program – “Broker and Dealer Qualification Training and Testing Program” – in the ROA (see above Task A). To this end, during June 1999, with assistance from representatives of the SMMA and Giumry Stock Exchange, we finalized preliminary efforts which led to the development of a set of 137 additional possible questions for consideration in the qualification training and testing process. These efforts were intensified during July 1999 such that, by the end of that month, our specialists had developed a total of 855 suggested questions (including those mentioned above) for consideration under the Broker and Dealer Qualification Training and Testing Program. As mentioned above (see above task A), activities during the month have focused on finalizing the training manual, question database, and testing software to be used in administering the new testing and training process.

Activities involving the SMMA (and, in general, all licensed professional securities markets participants – “PSMPs”) have and will continue to be used as opportunities for discussion of the SMMA’s (and the PSMPs’) objectives and to provide the SMMA (and the PSMPs) with guidance concerning the purposes and benefits of TAs and SROs; and, as well as, to evaluate the present level of functional development of the TAs and the PSMPs. For more details, see below Task F. For a summary of various past activities which have involved the SMMA and a description of SMMA needs going forward, see Attachment 18 to the Monthly Report for June 1999.

During September 1999, to support the efforts of the SMMA to achieve self-sustainability, discussions were held with a Senior Program Officer of Eurasia Foundation to consider a grant application which had been submitted (with our recommendation) by the SMMA to Eurasia Foundation. The purpose of the grant application was for the SMMA to obtain assistance in developing and providing a program of activities going-forward in the forthcoming year. As a result of conclusions reached during discussions with the Senior Program Officer for Eurasia Foundation, we are pleased to report that the SMMA is now receiving development grant assistance from Eurasia Foundation. Within the framework of the assistance which the SMMA is receiving from the Eurasia Foundation we have and continue to work with the SMMA to satisfy the requirements of the Eurasia Foundation grants as well as to otherwise work with the SMMA to assist and support in its institutional development (see herein below and **Attachment 25**).

As a result of these and other efforts which have been undertaken with the SMMA, during discussions in January 2000 involving representatives of the SMI, the SMMA was (for the present time) identified as the future (potential) SRO for brokers and dealers. To that end, the SMMA was also (for the present time) designated by the SMI as the institutional home for broker-dealer training under the Broker-Dealer Qualification Training and Testing Program. During January 2000, the first such training effort (to train trainers from among PSMPs to train future examiners) was provided by us in conjunction with both the SMI and SMMA (see Attachments 9 and 10 to the Monthly Report for January 2000). To build on

these initiatives, additional institution building activities to support the continued development of the SMMA are currently under discussion with the USAID. These include activities designed to: 1) leverage the experience of the SRS Pilot Program, 2) establish the SMMA as coordinator of the brokers' participation in future privatization initiatives, and 3) establish within the SMMA a "Broker Assistance Center". For more details, see **Attachment 26**. In the meantime, to satisfy certain technical assistance needs of the SMMA which were identified with the USAID Assessment Team in January 2000 (and which formed a portion of the basis on which the Project was extended from the end of February 2000 to the end of April 2000), a BDA/SRO Specialist was mobilized in March 2000 and has commenced an intensive review, among other matters, of the charter, by laws, practices and procedures of the SMMA.

Importantly, during March 2000, in furtherance of on-going efforts by the SMMA to satisfy the requirements of the grants which the SMMA has received from the Eurasia Foundation, the SMMA completed substantial work in development of a "Guidebook on Joint Stock Companies in the Republic of Armenia" (see **Attachment 27**) and began with our assistance to offer a series of training sessions to prospective PSMPs on "Management, Marketing and Regulation of Broker/Dealer Activities" (see **Attachment 28**).

Importantly, as well, other efforts involving the SMMA have been to solicit, facilitate and mobilize the SMMA (as an appropriate industry spokesperson) to issue public statements in support of the draft Law. A result of this effort was an open letter which was published by the SMMA, with our support, in a local newspaper which was addressed to the President, Prime Minister, Speaker and Members of the National Assembly of the ROA. For a copy, see **Attachment 29**.

As indicated above (see Task B), as a result of discussions in mid-September 1999 involving USAID Representative Richards and former SMI Head Mouradian, a series of one-on-one meetings were held in late September 1999 with the Presidents of each of Armenia's four stock exchanges. As also indicated above in Task B, the purpose of the meetings was two-fold: to determine the level of interest of the exchanges in participating in the "Armenian Stock Exchanges Website", and to determine from each their view concerning the possibility of a merger or consolidation of their activities with those of the other exchanges. The outcome was a clear indication of willingness on the part of all of the stock exchanges except the Yerevan Stock Exchange to participate in the proposed Armenian Stock Exchanges Website. As for the possibility of a merger or consolidation of the four stock exchanges, while all four exchanges indicated their willingness to consider this possibility, each expressed concern over practical issues in doing so and all three of the smaller exchanges expressed concern over the apparent desire of the Yerevan Stock Exchange to dominate the process.

6. Task F. *Training for Professional Market Participants*

As indicated above, to facilitate the activities specified in this Task and, as well, those specified in Task E, a Training Specialist was initially mobilized in October 1998. By the end of November 1998, as a result of numerous interviews and surveys which had been conducted by the Training Specialist to evaluate the needs of the TAs and brokers and dealers (and all PSMPs) in the ROA, a draft training plan (Draft Training Plan) and a draft training schedule (see Attachment 17 of Monthly Report for November 1998) was prepared.

For a copy of the Training Schedule as revised through March 15, 1999, see Attachment 20 to the monthly report for March 1999. During May, a further revised “Training Program” for the project was developed and provided to USAID Representative during her site visit to the project (see Attachment 15 to the Monthly Report for May 1999). It is envisaged that all training programs developed for the TAs and brokers and dealers (and other PSMPs) will also be provided to or made available for participation by the staff of the SMI.

To complement the activities of our initial Training Specialist and, at the same time, supplement these efforts with much needed training for company managers and directors (as well as PSMPs and others) on the (financial) advantages of good corporate governance practices, an additional Training Specialist (our second) was mobilized in late January 1999. Together, during February 1999, the two Training Specialists developed and delivered two “workshop” styled programs on “Corporate Governance and Competitiveness” – one in Gjumry and the other in Yerevan.

During March 1999, to implement certain of training activities set forth in the Draft Training Plan, our initial Training Specialist (who completed his activities during that month) provided training on a range of topics to a varied audience of brokers and dealers, many of whom are members of the SMMA and FMSA (see Attachment 21 to the Monthly Report for March 1999).

To further complement and supplement the activities of our initial Training Specialist, another such Training Specialist (our third) was mobilized during March 1999. This was done to facilitate the further design, development and delivery of certain of the SRS training programs which we began to design in February 1999. In particular, this Training Specialist was tasked to develop and deliver much needed training for brokers (and dealers) in brokerage operations and management. The latter training, styled as a “workshop”, was provided by this Training Specialist during April 1999.

As previously reported, to facilitate the SRS Pilot Program, substantive efforts have been put forward beginning in February 1999 to realize the steps and actions necessary to formalize and implement the SRS Pilot Program. Among other things, these have included efforts to establish the legal basis for the SRS Pilot Program – two GOA Decrees; draft “Tender Procedures for Selection of Brokers”; design and development of two broker-dealer/SRS training programs (one on “Financial Advisory and Underwriting” and the other on “Securities Firm Operations and Management”) which were provided during April 1999; and draft a “Template for Full and Short Form SRS Company Information” for completion of the offering prospectus for SRS company shares. By the end of April 1999, we had successfully prepared the way for us to promptly commence SRS Pilot Program activities once the required GOA approvals (a SRS Decree and a SRS Company Decree) were obtained.

Thus, during the period from April to October 1999, in order to keep the SRS Pilot Program proceeding “on track”, substantive efforts were focused on obtaining these approvals. As reported above (see above Task A), these efforts were successful, though requiring more time than was reasonably to be expected, and in the course of the past several months the SRS Pilot Program has moved into “full swing” with activities accelerating substantially since December 1999. During the past several months, these efforts have been further complemented by intensive training initiatives which were designed to increase the likelihood of success of the SRS Pilot Program and any future “SRS” activities undertaken in the ROA (see above Task A and **Attachment 16**).

In addition to the foregoing, efforts intensified beginning in December 1999 with the SMI to realize the fullest of benefits from the Broker-Dealer Qualification Training and Testing Training-of-Trainer Program which was successfully completed during November 1999 (see above Tasks A and E, and Attachments 11, 12 and 13 to the Monthly Report for November 1999). Importantly, these efforts were successful in having the SMI recognize the SMMA as the institutional home at the present time for broker-dealer qualification training in the ROA and as the best potential future SRO for brokers and dealers in the ROA. Importantly, as well, with grant assistance from the Eurasia Foundation and T/A from the Project, the SMMA has begun to provide valuable training to support securities market development in the ROA.

Respectfully submitted,

Donald R. Hart
Chief of Party/Project Manager
USAID Capital Markets Development Project

**List of Attachments
to
Quarterly Report for the Period Ending March 2000**

Attachment 1	Focused Areas of Activity between September 1999 and January 2000 as Discussed and Agreed in Meetings Held with USAID Representative Ann Richards during September 15 to 21, 1999
Attachment 2	E-mail from USAID Representative Ann Richards on Project Extension dated March 22, 2000
Attachment 3	E-mail to USAID Representative Michael Greene on Status Draft Law dated February 15, 2000
Attachment 4	E-mail to USAID Representatives Michael Greene and Ann Richards on Status of Draft Law dated March 4, 2000
Attachment 5	E-mail to USAID Representatives Michael Greene and Ann Richards on Status of Draft Law dated March 8, 2000
Attachment 6	E-mail to USAID Representatives Michael Greene and Ann Richards on Status of Draft Law dated March 20, 2000
Attachment 7	E-mail to USAID Representatives Michael Greene and Ann Richards on Status of Draft Law dated March 23, 2000
Attachment 8	Memorandum on Review of Draft Legislative Amendments Proposed by SMI dated February 17, 2000
Attachment 9	Memorandum on SMI Related Issues dated February 7, 2000
Attachment 10	Memorandum on SMI Related Issues dated February 18, 2000
Attachment 11	Memorandum on YSE, GSE, USE, ASCE Broker/Dealer Trading Volumes dated March 30, 2000
Attachment 12	Memorandum on Listing Policies and Rules Set by Armenian Stock Exchanges dated March 29, 2000
Attachment 13	Memorandum on Stock Exchange Shareholders, Members and Seat Holders dated March 29, 2000
Attachment 14	Memorandum on CMMU Activities during February and March 2000 dated April 11, 2000
Attachment 15	Memorandum on SRS Questionnaire Summary dated March 20, 2000
Attachment 16	Pilot SRS Lessons Learned Workshop dated March 22, 2000
Attachment 17	Memorandum on Companies Subject of GOA Decree #21 dated March 29, 2000
Attachment 18	Memorandum on CDA Related Issues dated March 6, 2000
Attachment 19	Registry/Depository/Clearing Tasks: Development Plan dated March 20, 2000
Attachment 20	Assumptions on CDA Budget/Solvency dated March 14, 2000
Attachment 21	Memorandum on CDA Related Issues dated March 30, 2000
Attachment 22	Memorandum on Consolidation Status Report dated April 4, 2000
Attachment 23	Information on Privatized JSCs with 50 or More Shareholders dated April 3, 2000
Attachment 24	Information on Privatized JSCs with 25 or More Shareholders dated April 3, 2000
Attachment 25	Memorandum on Activities of SMMA and Development Grant Program dated February 19, 2000
Attachment 26	Preliminary Draft on Outline of Activities for Development of SMMA dated March 23, 2000
Attachment 27	Memorandum on Guidebook of JSCs Implemented by SMMA dated March 12, 2000
Attachment 28	Memorandum on Commencement of SMMA Training Sessions dated March 21, 2000
Attachment 29	Memorandum on Letter of SMMA on Draft Law dated February 29, 2000